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FOREIGN
OFFICE

DEPT.

OIL

TITLE:

OIL: IRAQ: POSSIBLE RUSSIAN INTEREST.

REFER TO

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ob

W Marshall
Reg.

5/10.
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ob

W Marshall

23/10.

ob

J Wheat

13/11.

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11/11.

J Wheat

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LE

MR. Montgomerie

8/1.

J Wheat

30/11.

Reg.

1/2.

J Wheat

24/7/2.

Reg.

13/12.

54/35

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PART

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MJ

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From: Mr H.M. Champness



MINISTRY OF DEFENCE

Metropole Buildings, Northumberland Avenue, LONDON W.C.2

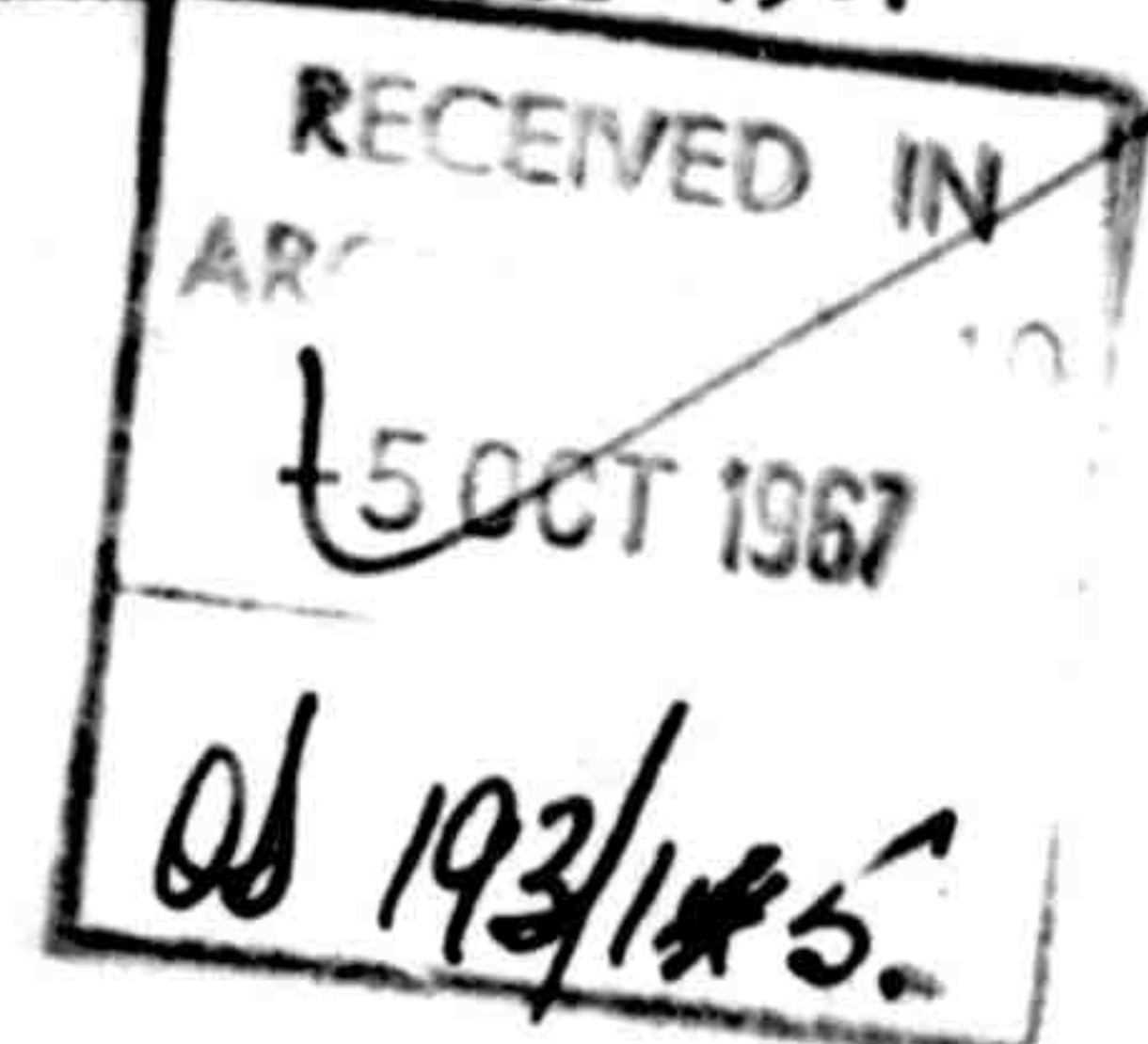
Telephone: Whitehall 7022, ext. 5858

Enter 1
6
04/10/67
see

Our reference: D/DEI/3/1

Your reference:

2nd October 1967



Dear Weait,

IRAQI OIL

We recently discussed the Paris telegram No. 925 of 18th September 1967, paragraph 4, where Bettencourt argues that IPC, by its intransigent stand on its 'undoubted rights', risks losing its whole stake in Iraq: in particular the words "If we maintained the present wholly negative attitude, we might well find that the Iraqis turn to other countries which we could not influence and of course he meant in particular the Russians. He thought therefore that we should all be wise to seek some more positive solution.....". Nor is this the first time that the prospect of Russian intervention in Iraqi oil has cropped up in these exchanges. It struck us that the text shows no sign that either speaker seriously questioned this prospect or doubted Russia's power to intervene. We think the odds are heavily against her doing so.

IPC's current dispute with the Iraqi Government centres on the future of the North Rumaila fields, which were on the verge of starting production when IPC had to relinquish control and suspend operations. If Russia took over these fields they should soon, in theory, be producing some 20 million tons of crude a year. To dispose of it, unless and until they build new pipelines, tank farms and export terminals, she would have to use those of IPC, who would presumably refuse permission and face expropriation. If the Russians acquired and used these facilities it is hardly conceivable that IPC would acquiesce and quietly continue its own much larger operations elsewhere. It is surely far more likely that there would be a crisis, IPC would eventually shut down and Russia would have to take control of oil production throughout the country.

In the meantime the Iraqi Government, which should in normal circumstances have collected about £140 million from IPC in 1966 on a crude output of some 70 million tons, would be waiting for its oil revenue. For some time the Iraqis have been pressing the Company to step up production (and hence revenue) only to be told that a large and rapid increase would depend upon the Company's regaining access to North Rumaila. Once in position, and unless the Iraqis showed unusual forbearance, the Russians would be expected to produce at a rate of 400 million tons a year (this being the figure urged upon IPC) and to turn in a revenue of £200 million in one form or another. Unless they were content to pay this sum and leave production at a standstill the Russians would then be obliged, not only to produce all this oil, but to market all but the fraction consumed inside Iraq. Could they do this? IPC would scarcely buy from its own lost concessions, and the international companies would presumably do their best to see that no major Western power touched it, whether Iraq offered it direct or through Russian brokers. If, nevertheless, Russia did succeed in placing some of it, and although Middle Eastern producing costs are the World's lowest, she would probably do so at a loss. Her main object in selling oil to the West is to earn hard currency, and her oil exports, which largely consist of low-cost Volga crude and pay no royalty, earn more of this than any others.

Mr J.G.B. Weait
Foreign Office (Oil Section)
Downing Street

CONFIDENTIAL

Discussed with Mr. Simmonds
Mr. Trevelyan will consider
this on his return on 14/10
3rd Oct 1967 3/10 W.H. 7.10

CONFIDENTIAL

It is hard to see how she could earn as much from peddling Iraqi crude as from similar direct exports of her own. In addition, any attempt by Russia to sell Iraqi oil would be likely to provoke so much resentment in international oil circles, especially among former concessionnaires, as to compromise at least some of Russia's regular oil markets.

7+2
on blue
notes

Could Russia import and consume this oil herself? Her own crude output is rising by 20 million tons a year and is planned to rise still faster in the near future, while her consumption has never yet approached this rate of increase. Thus her exports reached 73 million tons last year and will probably top 80 million this year. We would expect them to continue increasing for some years yet. She could not absorb Iraqi oil without a corresponding cut in her own notoriously inflexible oil programme, thus adding a litter of idle oil installations to the long list of unproductive investments of which her press has complained for years. Moreover her oil transport system, notably her pipeline network, is hopelessly unsuited to the handling of large oil imports, and would be quite incapable of dealing both with these and with large oil exports (which she would surely not wish to abandon) at one and the same time. We conclude that for Russia to import large quantities of oil from Iraq or anywhere else would be too wasteful and too dislocating in its effect on her own oil economy to be worth considering.

Could Russia dispose of this oil in Eastern Europe? About a third of her total exports go to this area, all five of whose oil-deficient states are bound by trade agreement to take Russian oil in such volume as to leave little room for other suppliers until 1970. At least two have similar, though perhaps looser, arrangements to do so until 1975. Of those seeking small supplies from elsewhere, one (East Germany) is buying Iranian crude from BP, three buy a little from the UAR and two or three (Rumania, Bulgaria, and now perhaps Poland) have agreements to take Iranian crude next year. In no case that we know of has Iraq or the Soviet Union figured in such deals. With or without Soviet intervention, there seems little prospect of placing much Iraqi oil in these markets.

There remain the Soviet export markets east of Suez, to whom the flow of oil is now impeded by the closure of the Canal. On purely logistic grounds it might seem to suit the Russians to supply these markets with Iraqi oil on Soviet account, but here again there would be difficulties. By far the largest Soviet market in this quarter is Japan, who would probably hesitate to compromise the great bulk of her imports through Western-controlled interests for the sake of the fraction (some four million tons) which she now receives from the USSR. The other Soviet exports are small, consist chiefly of refined products (this would raise refining problems), almost certainly yield little profit, and would be quite inadequate as an outlet even for the Rumaila fields once these were in full production.

We therefore think that Russia, whatever the prospect for other aspirants, is very poorly placed to intrude upon the Iraqi oil economy and could only do so at greater cost to her own oil interests than she is likely to risk. Had she thought otherwise, she might well have intervened by now, but we see no sign that she has any such intention. It is also worth noting that all the essentials determining Russia's oil situation must be well known to the French, and that many have been expounded by the French themselves in NATO and elsewhere. Finally we suggest that the mere countenance is given to the threat of Russian intervention in the oil affairs of Iraq or the Company, the weaker becomes the latter's bargaining position. I am copying this to Simmons in the Ministry of Power.

Yours

W. H. Chamberlain

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23 OCT 1967

MINISTRY OF POWER

PETROLEUM DIVISION

Thames House South, Millbank, LONDON S.W.1

Telephone: Abbey 7000 - Ext. 1081

Our reference:

ad 193/15

Your reference:

See John

19th October, 1967.

Iraqi Oil and Russia

I read with interest Champness's letter to you of the 2nd October and agree generally with his conclusions (which are in line with my study early this year).

There is just one point. I understand that the development of North Rumaila by whoever would require new pipeline and export terminal because the capacity of the present pipeline and terminals are limited. The Iraqis would understand this and would not expect Russia to build up production until these new facilities had been built. It does not therefore seem to me impossible that Iraq might hope to bring Russia into North Rumaila while IPC maintained its levels of production from the present producing fields. Russia might be able to dispose of an extra 20 m. tons a year without too heavy a loss to Russia or Iraq.

On the other hand, Russia has shown very little desire to invest risk capital overseas and we have no indication that any Bloc country is sniffing round North Rumaila. I therefore agree that Bettencourt's argument is a canard.

Yours ever,
Sydney
S.W. Fremantle

J.G.B. Weait, Esq.,
Foreign Office,
Whitehall,
London, S.W. 1.

+ Copy to Mr Chamberlain

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JW 6/4

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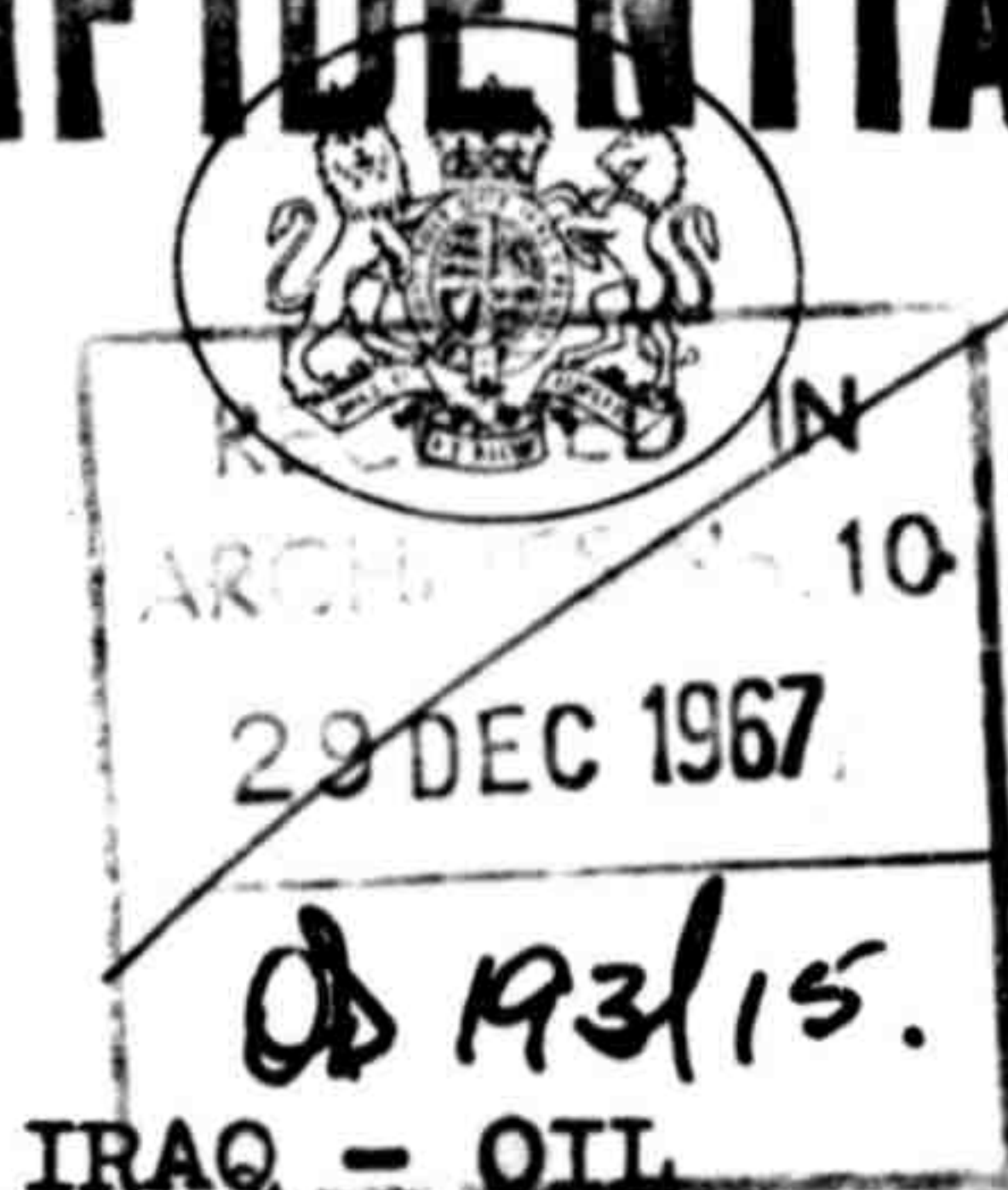
British Embassy,

Beirut, Lebanon

22nd December 1967

W.F. Marshall Esq.,
Oil Department,
Foreign Office

Dear Sir,



copy and (3) copy: AB [unclear]
[unclear] [unclear]
[unclear] [unclear]
[unclear] [unclear]
[unclear] [unclear]

1. Since drafting my letter 1124/67 E(S) of 21st December to David Montgomery about inter alia the visit of a delegation of Soviet oil experts to Iraq, I have heard from the latest arrivals from Baghdad that they have been active in their support for the I.N.O.C./E.R.A.P. agreement as a pattern for the future development of Iraqi oil exploitation and exploration.

2. The possibility of an oil agreement between I.N.O.C. and the U.S.S.R. was reported in the Baghdad press on 20 December and, today, L'Orient reports an announcement from Baghdad that an agreement has been concluded, the details of which are to be announced later.

3. My guess is that the agreement is for the provision of technical services, such as geological and geophysical surveys and drilling. If marketing is also included, any area of operations agreed upon would probably be of low production potential which the Soviet Union could dispose of without affecting its own pattern of oil exports. At worst, the agreement could mean that I.N.O.C. are suffering from illusions of grandeur and, with Soviet assistance, intend to take on the development of North Rumaila, seeking only sales agreements with foreign companies and governments. This type of arrangement would have its attractions for anyone not wishing to become involved in the difficulties of working in Iraq or a clash with I.P.C. (although this possibility may no longer have any force as a deterrent). Perhaps, C.F.P. or E.R.A.P. are already thinking along these lines (a reflection of the de Gaulle - Kosygin accord?).

4. Turning to the position of I.P.C., Muhammad Said Naqib, a prominent Basra businessman suggested to me, after news of the rejection of the latest I.P.C. proposals, that the company should look for "other ways", preferably Tahir Yahya, and that he would be happy to serve as intermediary. I played dumb boy and suggested that I.P.C. were the proper contact for any proposals which would help improve the present situation. I would not have put this on record, but for the fact that Naqib has some pull with Tahir (doubtless to the latter's own interests). He recently, through Tahir, secured the repeal of the National Defence tax on soft drinks and has been asked (presumably because of his personal standing with the As-Sabah) to accompany Tahir to Kuwait in the near future (I have seen a letter confirming these two points). I do not, therefore, rule out that Tahir might be interested in a deal with I.P.C. I have heard all the arguments against such practises, but the fact remains that, in one form or another, they have always played a part in Middle East oil negotiations. I.P.C.'s apparent failure to exploit the seamy side must have weighed against them and will continue to do so. If they are to remain in the fight they might have to resort to this weapon as their competitor's appear to have done.

Yours sincerely, *Eastern Dept*
Stephen Armitage

(H. St. J.B. Armitage)

P.S. Typing troubles as hard
to call in the Army!

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p. 1/1

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(14/67.E(8))

1. Copy to Oil Dept.
2. Give to S. Dist. in F.O.
3. Ry.
4. Mr. Bamber (para 4)
5. Mr. Montgomery or

BRITISH EMBASSY,

BEIRUT.

21 December, 1967

RECEIVED IN
ARCHIVES

EQ6/23

Dear Sir,

IRAQ/U.S.S.R.

The presence of two Soviet delegations in Iraq this month may mark yet another round of Iraqi/Soviet bargaining which neither side has been able to turn to its own advantage.

2. At the end of November the Iraqi Under Secretary of Oil announced the arrival of sixteen Soviet oil experts, at the invitation of the Iraq National Oil Company, with a view to "drawing up an agreement for oil exploration and development in the northern part of Iraq". This statement was modified some days later by the Deputy Chairman of I.N.O.C. who said that the delegation were collecting information with a view to embarking on negotiations for an oil agreement. According to a reliable source, the Soviet Ambassador in Baghdad took pains to let it be known that the Iraqis had asked for the delegation to visit Iraq for advice on oil matters. I understand, however, that the delegation, which may still be in Baghdad did travel extensively and is believed to have shown interest in the border areas nearest the oilfields in north-east Syria and the Tartous pipeline. If the visit was merely intended by I.N.O.C. to heighten the atmosphere for I.P.C.'s latest presentation the Russians are unlikely to have played the Iraqi game without having sought a quid pro quo. This would now appear to have been connected with the visit of a Soviet economic delegation to Baghdad.

3. This second, and larger, delegation, which have just concluded their visit had talks with the Iraqis about the 1959 Iraq/U.S.S.R. agreement. A further protocol was signed on 17 December which is said to cover Soviet agreement to speed up the completion of three factories (for pharmaceuticals, agricultural machinery and cotton textiles) for which machinery and equipment were provided under the 1959 agreement and the Baghdad-Basra standard gauge railway line (which, more than three years after its official opening, is still far from being fully operational). This new protocol seems to be superfluous as the work on the factories has, since 1965, been proceeding reasonably smoothly, if somewhat slowly. The railway is a different problem, but in the main, delay on the Soviet side in the installation of the control system is due to the Iraqi failure to complete constructional works, including certain new stations.

4. No mention was made of other projects, but Baghdad Radio had announced, on 14 December, that the Council of Ministers had held an emergency meeting to discuss the Haditha dam project. The real purpose behind the joint talks might have been, therefore, discussion of the Haditha agreement, which the two sides negotiated early this

/year

D. Montgomery, Esq.,
Eastern Department,
Foreign Office, S.W.1.

CONFIDENTIAL

LAST REF.	
NEXT REF.	

CONFIDENTIAL

year, but which still awaits the approval of the Iraqi Planning Board. (Whatever the Russian pressure over this project, the Iraqis, whether for or against it, will not contemplate going ahead until there is an agreement with the Syrians about the Euphrates waters - and yet another long round of talks, this time in Baghdad, again ended inconclusively on 26 November). The Russians may also have attempted to re-open discussions on some of the projects of the 1959 agreement which were cancelled unilaterally by the 1963 Ba'ath Government and which the protocol signed by Adib Al Jadir, then Minister of Industry, in Moscow in early 1965, clearly left open to further dispute.

5. I am sending copies of this letter to the Treasury; the Bank of England; the Department of Economic Affairs; the Director of Economic Intelligence at the Ministry of Defence; Commercial Relations and Exports Department of the Board of Trade and Export Credits Guarantee Department.

Yours sincerely,

St. J. B. Armitage

(H. St. J. B. Armitage)

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4

The Baghdad Observer - Monday, December 25, 1967

OFFICIAL STATEMENT ON IRAQI-SOVIET
OIL COOPERATION

The Council of Ministers has issued the following statement on economic and technical cooperation between Iraq and the Soviet Union in the fields of oil exploitation.

"The Council of Ministers has been acquainted with the proposition of the Minister of Oil, and explanations of the Chairman of the Iraq National Oil Company on the approval of INOC Board of Administration on letters exchanged between the Company and the Head of the Soviet Delegation on economic and technical cooperation between the two parties in the fields of prospecting, excavation for the extraction and direct exploitation and marketing of oil".

"The Council of Ministers has considered the contents of the said letters in harmony with the general oil policy of the State, in compliance with Article 16 of Law No. 123 of 1967. Thus, the Council has approved the exchange of such letters which have been duly signed by the two parties on 24.12.1967."

757, 12/24
Economic Dept.
Northern Dept.
P.A.
J.W. 1/1



Al Thawra

The Baghdad Observer

Monday, December 25, 1967

IRAQ-U.S.S.R. OIL ACCORD

Economic and Technical Cooperation in Petroleum Industry

Letters exchanged between the Iraqi National Oil Company and the Soviet delegation currently visiting Iraq were signed at the Council of Ministers Headquarters yesterday at noon time, under which the Soviet Union would exchange technicians, equipments and machinery for shipments of extracted crude oil.

Sayid Adib al-Jadir, Chairman of INOC Board of Administration, signed on behalf of Iraq and Mr. Siminov Skatishkov, Chairman of Foreign Economic Relations Commission at the U.S.S.R. Council of Ministers and head of the Soviet delegation signed on behalf of Soviet Union.

In a statement on the occasion, Sd. al-Jadir expressed satisfaction at the signing of the letters and pointed out that he had signed a Protocol in 1965 on economic cooperation between Iraq and the Soviet Union which helped promote economic relations between the two countries. He hoped these letters would serve as a beginning for further cooperation.

"The significance of this step under the current circumstances, especially after the magnanimous political support extended by the Soviet Union to the Arab countries during the imperialist-Zionist aggression last June becomes self evident in view of the fact that it is related to a vital field of cooperation between our two countries which we consider a corner-stone for our national economy. [(1) Members of the board of directors of the Iraqi National Petroleum Company, and members of the Soviet delegation, as well as the Soviet Ambassador, were present at the ceremony arranged for the signature of the letters].

In reply to al-Jadir's statement, Mr. Skatishkov confirmed that the friendly ties between Iraq and the Soviet Union would be furthered and strengthened by effective agreements in various fields of cooperation.

"The Soviet Union has responded to the desire of the Government of Iraq to extend technical assistance for the establishing and development of oil industries in the country. The Soviet Government in fact, devotes considerable attention to cooperation with Iraq in the field of oil for the benefit of our two peoples. [(2) This agreement also helps us to achieve what we have always aimed at for a direct exploitation of oil. Mr. Jadir added: I have no doubt that the detailed agreements which will be concluded following the exchange of these letters will form a strong basis for cooperation between our two countries, and assist us in reaching our aims for the industrialisation of this country and the setting-up of an independent oil industry, which would weaken foreign oil trusts and benefit both our countries and people. In my name and that of my colleagues the members of the board of the Iraqi National Petroleum Company, I extend my thanks to you and to your colleagues the

/...



2.

members of the Soviet delegation for the cooperation you have shown. (is my hope that we will soon be able to complete the present agreements."]).

After the exchange of letters between the two parties, Sd. Adeeb al-Jadir held a press conference at the Diwan of the Council of Ministers.

The following letter was read out at the conference: The government of the USSR has agreed to extend assistance to the Government of Iraq to undertake direct operations for the development of oil industry in the country. Such assistance may be extended by Soviet enterprises in the field of excavation of oil wells together with equipment required for such operations in the southern areas of Iraq and for the facilitation of transportation and marketing of extracted oil. The assistance will also involve geological and exploration surveys in search for oil in the northern areas of Iraq, in addition to pinpoint sites for oil excavation in areas of proven reserve in the south and areas in which exploration and geological survey operations will be made in the north. The defining of the scope, terms and conditions of the assistance in the aforementioned fields will be decided upon in subsequent negotiations between the competent parties.

It has become clear that the expenses to be borne by Soviet enterprises in connection with the supply of equipments, the extension of technical assistance for geological prospecting, excavation of wells and provision of all other requirements, as well as expenses emanating from other operations related to assistance for the direct development of Iraqi national oil industry, will be compensated by the Iraqi party in kind of shipments of oil extracted by the Iraq National Oil Company to the Soviet Union, provided that terms and conditions of such shipments be defined simultaneously with terms and conditions according to which the above mentioned assistance will be extended.

Negotiations between representatives of the two parties may be held either in Baghdad or in Moscow.

The Soviet party will take the initiative of informing the Iraqi party of the date for such negotiations after careful consideration of the results of the works of Soviet experts who have for the last four weeks been studying information submitted by the Iraqi party and making various tours of oil fields and installations in Iraq."

[(3) The two parties confirmed that the letter of the head of the Soviet delegation and the reply of the head of the Iraqi delegation are considered an initial agreement between the two parties in this connection].

Thereafter, Sd. al-Jadir, read out the following statement to press reporters: "You have been aware of the contents of letters exchanged between INOC and the Chairman of the Foreign Economic Relations Commission at the USSR Council of Ministers."

/...



3.

"Now let me point out that the oil problem in Iraq began with the imposition of the first oil concession concluded under the Mandatory Regime in 1925. With the elapse of years and succession of occupation eras and biased agreements, the problem was aggravated.

"It was natural, however, that the 14th July Revolution of 1958 would endeavour to achieve the economic independence of Iraq besides the political independence achieved ever since the eruption of the revolution. In the forefront of the factors leading to the economic independence was the liberation of Iraq's economy from the restrictions imposed by the monopoly of oil exploitation by a single company which resolved to embark on a unilateral limitation of production, and prevented Iraq from embarking on oil production directly or in cooperation with any party.

Thus, Law No. 80 of 1961 was promulgated to confirm Iraq's rights to exercise sovereignty and utilize the areas outside the scope of exploitation of oil companies operating in Iraq.

In realization of the objectives of Law No. 80 and in conformation of Iraq's oil policy, Law No. 97 and Law No. 123 of 1967 gave birth to the Iraq National Oil Company which started operations on the 3rd of October, 1967. Meanwhile, the Ministry of Oil had initiated contacts with various foreign institutions thus confirming Iraq's determination to implement Law No. 97 in a manner that would render INOC capable of exercising its obligations and realizing its objectives.

INOC set out relentlessly and rationally to carry out its obligation. It was evident that certain parties thought it would be necessary that each of them be given enough time to consider cooperation with INOC. Foreign quarters were of different degrees of acquaintance with Iraq's oil conditions and potentialities, and its requirements to carry out its national objectives represented in its attitude towards oil affairs.

The French company ERAP was deepest among foreign companies in its comprehension of Iraq's oil conditions and was highly prepared to cooperate with INOC on the principles INOC had approved in response to the oil policy of the government. Therefore, agreement was reached with ERAP on the terms declared to the public, and the contract would be complimented by the promulgation of a special law.

As concerns the friendly Soviet Union, the Ministry of Oil had in September contacted the competent authorities to take the initiative to embark on cooperation with Iraq in direct exploitation and marketing of oil. After the arrival of the Soviet delegation, INOC put at its disposal all facilities required for the realization of such cooperation which has reached an initial stage with the exchange of the above mentioned letters. Meanwhile, the two parties look forward to further steps on the road of cooperation in the fields of oil industry and marketing.

Thus we have started what we were long looking forward to i.e. the establishment of an independent national oil industry by means of contractual relations and direct exploitation. INOC will in the near future start oil extraction and marketing.

/...



4.

Iraq's capabilities of utilizing its natural resources are quite considerable; I would not be exaggerating if I said they were highly expensive and would secure prosperity, happiness, freedom and dignity for all citizens from the farthest north to the farthest south. Every step to be made towards utilizing Iraq's resources and potentialities would return with benefit to other nations dealing with Iraq on principles of mutual interests, free from political domination or economic monopoly.

We are at the threshold of a phase in which the public sector's contribution is expanding to lead progress and undertake basic responsibility of implementing development plans. No doubt ample scope is open for the private sector to be reactivated within this expansion, to properly contribute to the general development of the country, without exploitation.

We cannot, and should not, engage in fruitless endeavours; the recession phase we have been confronted with will soon be eliminated under the impact of ever expanding activity.

Our emancipation in action and production will undoubtedly bring to the surface the great potential energies not only in our natural resources which we have so far been deprived of, but in our human capabilities represented in the diligent workers, keen engineers and sincere economists who are anxious to launch creative activities in all economic fields. Thus, better social conditions will be secured through our collective action. I wish that INOC will succeed in its active role in all these fields."

In reply to a question as to whether the agreement covered Rumaila oil field, Sd. al-Jadir said "Areas of the agreement were not defined in these letters. They would be defined in new agreements." He stated that the agreement differed from that concluded with ERAP, in that the latter was a mere contract while the former has implied direct exploitation by Iraq with the assistance of the Soviet Union.

Asked whether the two agreements covered all Iraqi territories, he said they covered only a small part of Iraq and there were considerable scope for other companies and countries in this connection.

In reply to a question on whether there was an intention towards cooperation between INOC and similar Arab companies especially in U.A.R., he said that a conference of national oil companies was held in Djarkata and that contacts were on the way on the possibility of joint venture. "Iraq welcomes cooperation with Arab states especially UAR which we consider a basis for realizing higher Arab interests," he added.

Asked whether the subject of delegating Iraqi citizens to Moscow for training in oil enterprises was discussed, he said there would be other agreements to involve such possibilities.

/...



5.

In reply to a question concerning the probability that (1) companies operating in Iraq would hinder the exploitation of oil, he said "I don't think there are possibilities for such hinderance. Iraq has concluded agreements with countries which need oil for local consumption, and many offers have been received from many countries. However, Iraq will go ahead with its oil policy in accordance with its interests regardless of all other considerations".

Sd. al-Jadir, also pointed out that INOC was considering offers submitted by other countries for the exploitation of Iraqi oil.

In reply to another question, he said, the company would appoint a number of engineers soon after starting operations. He denied the existence of any secret agreement with ERAP, the Soviet Union or any other party, and added that all agreements had been published and that all agreements to be concluded in the future would be made public. "The people have been bored of declarations and pledges; our policy is based on action", he concluded.

Note:

(a) Square bracket (1) and (2) are translations of passages from the text in Al Thawra of 25 December which were omitted from the Baghdad Observer

(b) Square bracket (3). This passage was not included in the Al Thawra text.

REC- VI
AK 10
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Reference.....

Enber

THE TIMES 28 DECEMBER 1967

RUSSIA MOVES INTO MIDDLE EAST OIL

(5)

Russia and France have lost no time in exploiting the confusion and demoralization among Arab countries that has followed the June war. The deal between the French state oil company, Erap, and Iraq was the first fruit. The deal between Russia and Iraq, announced over the weekend, has followed soon after. France has agreed to act as contractors; Russia to finance the Iraqis' own efforts at exploration and development. At this level they are straightforward commercial deals. But there are other levels.

The land included in these deals is part of the original Iraq Petroleum Company concession, taken away by decree under GENERAL KASSIM'S Law 80. I.P.C. is owned by five major oil companies—British Petroleum, Shell, Mobil, Jersey Standard, and Compagnie Française des Pétroles. As such it has been, almost ex officio, the main political target in Iraq and to strip it of its power has been a high political priority. To the extent that France and Russia are helping Iraq to do this, where other companies have held back for legal reasons, they are serving Iraq's purpose. But the deals would not have been agreed if they did not, at the same time, serve the ends of France and Russia. France would like to see the power of the Anglo-American oil giants reduced. At the same time, it needs to diversify its sources of crude oil, still too dependent on Algeria.

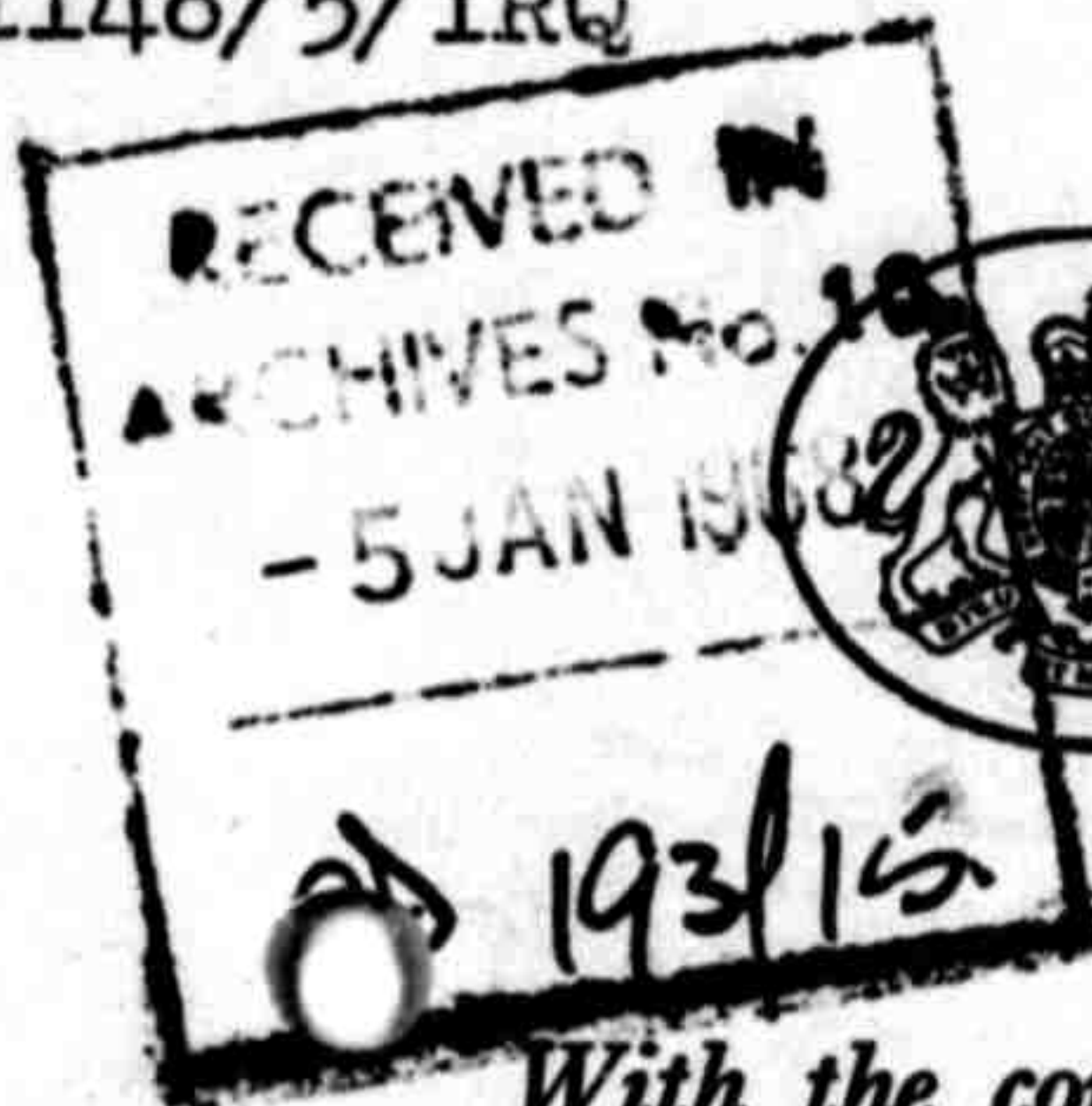
The Russians have always taken an interest in the Middle East and it is all the keener now that they, one of the world's great producers, are facing a real shortage of oil. The combined pressures of increasing domestic demand—which will accelerate sharply if standards of living (which means more plastics, consumer goods, cars — all users of petroleum) rise—and the commitments to supply Comecon countries will mount up to a formidable load on Russian oil resources, and could result in a Russian shortage of crude oil in the early seventies.

Agreements have already been made. The most important was last year's natural gas deal with Iran, under which Iran sold Russia the gas for a steel mill, tube-making plant and machine-tool factories. Rumania has made a barter deal with Iran; Yugoslavia is rumoured to have made a deal with Venezuela. The political aspects of the deal, too, must be attractive to Russia. One immediate consequence of the June war was to make many Arabs, particularly in Egypt and Syria, feel that they had been badly let down by the great power who had earlier encouraged them in their bellicose attitude to Israel. This disenchantment has by now been modified, partly as a result of Russia's massive shipments of arms to replace those lost in the fighting. A deal which directly challenges the position of western owned oil companies helps the process of Russia's rehabilitation in the Arab world.

P. a.
JW 2/1

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1) JW
2) Copy: AB Paykel
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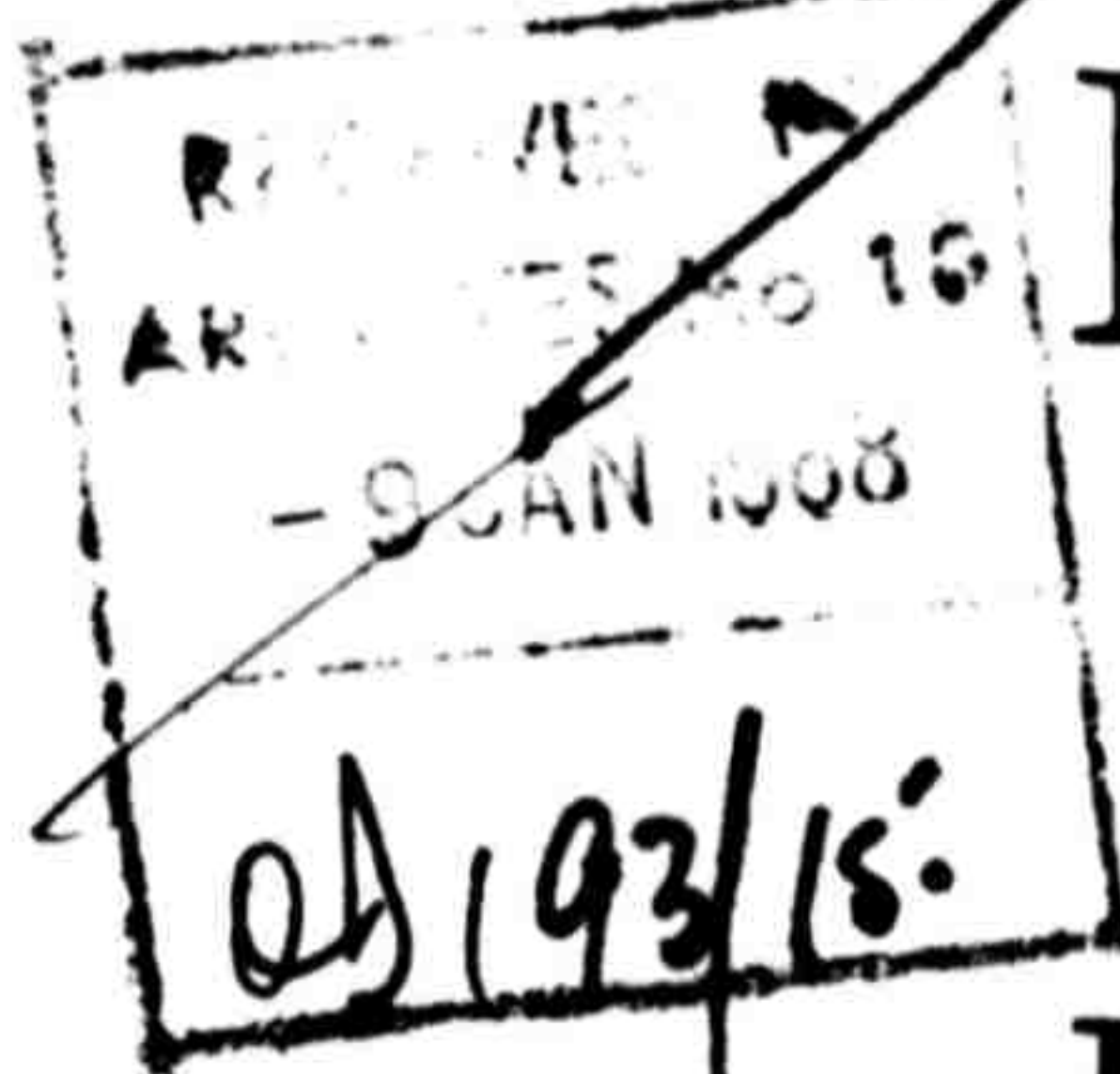
With the compliments of
(H. St. J.B. Armitage)

W.F. Marshall, Esq.,
Oil Department,
Foreign Office,
London, S.W.1.

BRITISH EMBASSY

BEIRUT

30 December 1967.



Iraq challenge to oil consortium

Deal planned with Russia

From NICHOLAS HERBERT—Beirut, Dec. 27

President Abdul Rahman Arif seems determined to provoke a serious quarrel with the internationally owned Iraq Petroleum Company (I.P.C.) and reorientate Iraq's oil industry to bring in others, notably the Soviet Union and France. He has renewed his assault on members of the I.P.C. consortium, whom he calls "bloodsuckers", and has asserted that Iraq is determined to exploit its own oil wealth.

A deal now being worked out with the Soviet Union is calculated to make this possible. Letters of intent have been signed in Baghdad for an arrangement under which the Soviet Union, in return for Iraq crude oil, would make available technical assistance and machinery both for internal exploration and for transport overseas.

The details are to be worked out when a Soviet technical mission completes its studies, but at first sight the deal looks like an important Russian move into an area that has been a western preserve hitherto. The I.P.C. is owned by British, French, Dutch, and American companies and by the Gulbenkian family.

Hard lesson

Iraq's move is the consequence of the hard lesson learnt during the I.P.C. Syria crisis over oil pipeline royalties and the oil boycott which followed the June war with Israel. This was that Iraq was wholly dependent on the west—and largely dependent on Syria—for the sale and export of its oil and therefore for the great majority of its foreign earnings.

The Soviet deal also seemed to have implications for the rich North Rumaila oilfield which has not, as previously reported, fallen into the lap of the French Entreprise de Recherches et d'Activités Pétrolières (Erap), but is still open to negotiation. An I.P.C. offer to exploit it jointly has been turned down by Abid al-Jadir, the highly talented new chairman of the Iraq National Oil Company (I.N.O.C.), but another French firm, the Compagnie Française des Pétroles (C.F.P.) is known to be negotiating about it.

Adib al-Jadir has said that the specific areas covered by the Russian deal remain to be decided, but cover only a small part of the areas taken away from the I.P.C. in 1961 and now being offered up by I.N.O.C. He added that, while the Erap concession provides for the French to explore and exploit certain areas under contract, the Soviet deal pro-

vides for assistance to I.N.O.C. so that it can exploit the areas itself.

There has been speculation that Adib al-Jadir is holding back from specifying the exact area involved in the Russian deal so that if negotiations with C.F.P. fail he will have another string to his bow.

Cause of friction

Another result of all this may be to provoke arguments among western oil companies which have hitherto cooperated. It has been reported that C.F.P., which is itself a shareholder in I.P.C., has made some arrangement for compensation of its colleagues if it wins the right to exploit North Rumaila. If so, the details have not been revealed, and it is also reported that the American shareholders in particular are annoyed with C.F.P. The rejection of I.P.C.'s offer on North Rumaila and the granting to Erap of plum acreage which formerly belonged to I.P.C. seems certain to cause friction as well.

President Arif has been much incensed by a sabotage attempt on oil installations at Kirkuk, which has resulted in many arrests and in extra security provisions. He alleges that the I.P.C. was somehow involved and has hinted at the belief that it was done as a reprisal for the concession being granted to Erap. Another theory, propounded by a right-wing Beirut newspaper, *Al Safa*, is that the sabotage was a communist attempt to restart trouble between the Iraq Army and the Kurds, whose long-lived rebellion has been in abeyance since a settlement was reached about 18 months ago.

There have been signs lately that all was not well with the implementation of this agreement and a number of well known Iraqis, including the former Prime Minister, Dr. Abdul Rahman al-Bazzaz, are now reported to have made a public demand for it to be carried out in full. Dr. Bazzaz was responsible for negotiating the agreement with Mulla Mustáfa Barzani, the Kurdish leader, and his joining an appeal would indicate some concern.

Meanwhile, there is apparently no lack of bidders, eastern and western, for the concessions T.N.O.C. is distributing. Adib al-Jadir has declined to disclose details about these but it is known that French and Americans are competing for a concession to exploit sulphur deposits in Iraq. It was also announced today that an agreement would soon be signed with Turkey under which a pipeline would be built to carry natural gas from Iraq's northern oilfields to Turkey.

Leading article, page 2.

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The Iraqi-Soviet Oil Agreement

(a) Baghdad home service in Arabic 15.00 GMT 24.12.67

Excerpts from report on signing ceremony:

The memoranda exchanged between the Iraqi National Oil Company (INOC) and the Soviet delegation now visiting Iraq were signed at 12.00 today at the Premier's office. They provide that the Soviet Union will supply Iraq with experts, equipment and machinery in return for oil.

The memoranda were signed for Iraq by Adib al-Jadir, chairman of the INOC board, and for the Soviet Union by Simenov Skachkov, Chairman of the State Committee for Foreign Economic Relations and head of the Soviet delegation. The signing ceremony was also attended by the members of the INOC's board, members of the Soviet delegation and the Soviet Ambassador in Baghdad.

Adib al-Jadir spoke on the occasion, expressing his pleasure at the signing of the memoranda. He said: ... I am sure that the full agreements which will be concluded following the exchange of these memoranda will lay strong foundations for the co-operation between our two countries and help us to fulfil our aspiration to industrialise the country and to set up an independent oil industry which will weaken the foreign petroleum monopolies and benefit our two peoples and countries...

Speaking on the occasion, the chief Soviet delegate, Simenov Skachkov, said: ... The present agreements will be translated into various forms of effective profit-making co-operation... A team of Soviet experts participated in the initial talks between us and prepared for the exchange of these memoranda. The further development of this co-operation will be planned through other agreements.

The memoranda exchanged between the Iraqi and Soviet sides were then read at a press conference held by Adib al-Jadir at the Premier's office attended by the representatives of Arab and foreign news agencies, radio and television, and by the members of the INOC board.

The following is the text of the Iraqi memorandum:

S. A. Skachkov, Chairman of the State Committee for Foreign Economic Relations. Dear Sir, I acknowledge receipt of your letter dated 24th December 1967, which contains the following: The USSR Government has agreed to assist the Iraqi Government in directly developing its own oil industry. I am pleased to affirm here that the Soviet enterprises will offer this assistance by drilling productive oil wells and providing the necessary equipment and machinery for them in the southern regions of Iraq. They will provide transport facilities, market oil, conduct geological surveys in search of oil in the northern regions of Iraq, locate sites for oil wells to be drilled in areas with proved oil deposits in southern Iraq, and select areas to be covered by the geological survey in northern Iraq.

The scale, bases and terms of this assistance will be specified in subsequent talks between the representatives of the two sides. It is also understood that the Soviet enterprises' expenses in providing equipment and offering technical assistance for carrying out the geological survey, the experimental and productive drilling of oil wells, and their expenses in all other operations connected with assisting Iraq to develop its own oil industry will be repaid in oil shipments to the USSR. The bases and terms of these shipments will be specified when the terms, bases and scale of the Soviet assistance is specified.

The negotiations between the two sides can be held in Baghdad or Moscow. The Soviet side will notify the Iraqi side of the date of the negotiations after carefully studying the results of the work of the Soviet experts, who during the past four weeks have studied the data supplied to them by the Iraqi side and have visited some of the Iraqi oilfields and installations.

Mr. Chairman, I approve the contents of your memorandum and point out that it and this reply are considered an initial agreement between the two sides in this respect. Kindly accept my regards and appreciation. Sincerely, Adib al-Jadir, chairman of the board of directors of the Iraqi National Oil Company.

... Asked if the Iraqi-Soviet agreement covered the Rumaylah oilfield, Adib al-Jadir said that the areas covered by the agreement were not specified in the memorandum but would be specified in new agreements. In reply to another question, Jadir said that this agreement differed from the one concluded with the French petroleum group ERAP: the agreement with ERAP was a contract, while this agreement provided for assistance.

Asked if these two agreements covered the whole of Iraq, Adib al-Jadir answered that they covered a small part of the country and that there remained vast scope for other companies and States. Asked if there was any plan for co-operation between the INOC and similar Arab companies, especially in the UAR, Jadir said: A meeting of national companies was held in Jakarta and negotiations are continuing on the possibility of co-operation. He added: Iraq welcomes co-operation with all Arab States, especially with the UAR, because we regard it as the source of action for the Arabs' supreme interests.

Asked if he had considered sending Iraqis to Moscow for training in oil specialities, Jadir said: There are other agreements from which we can benefit in this field.

Asked if the petroleum companies now operating in Iraq might obstruct the oil exploitation, Jadir said: I do not believe there will be any obstruction. Iraq concluded agreements with Governments which needed oil. Offers have been made by many companies and States. Iraq will go ahead with its oil policy, which serves its own interests, without paying attention to such talk.

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Jadir announced that negotiations were being held with other States on oil exploitation and that the INOC was studying new offers.

In reply to another question, Jadir said the company would appoint a number of technicians, and additional technicians, as soon as actual work began.

Jadir denied that there had been any secret meeting with ERAP, the Soviet Union or any other quarter. He said the agreements would all be published. He said: The people are tired of empty talk and promises. Our policy is based on deeds, not words.

(b) Baghdad home service in Arabic 19.00 GMT 24.12.67

Excerpts from commentary:

... Our liberated oil policy has produced a response in friendly countries, which have expressed their complete readiness to co-operate with us in exploiting Iraqi oil to enable the National Oil Company to produce and market oil independently and to safeguard Iraq's national resources from any form of foreign exploitation.

The agreement on economic and technical co-operation in the field of oil exploitation which was signed today between Iraq and the USSR, constitutes a new step towards the sound exploitation of Iraqi oil and opens up wider scope for economic and technical co-operation with the friendly Soviet Union...

The economic and technical co-operation between Iraq and the USSR in oil exploitation is considered another blow to the monopolist oil companies, a real liquidation of the unjust agreements which they once imposed on the oil-producing countries, and a concrete example of basing international relations on mutual interests...

President Arif's Criticism of the IPC

Baghdad home service in Arabic 11.00 GMT 26.12.67

Excerpts from report:

... President Arif this morning visited the science college. He was given a warm welcome by teachers and students...

Speaking to the teachers at the college, President Arif said: Brothers, I speak to you as a brother and compatriot. I have discovered that your college is something to be proud of...

His Excellency said: I thank you for your efforts and for the attention you are giving the students in serving this country, which was oppressed by imperialism which dominated its wealth. His Excellency added: The best example of this is the monopolist oil companies such as the Iraq Petroleum Company. This company tried to prevent us from exploiting our oil wealth for the benefit of this people. The company is a group of bloodsuckers. We have broken the ring these companies built around us. Their destructive attempts, such as inciting their agents to create disturbances and to blow up certain oil installations, will not help them.

Imperialism wants to hamper our march, but the monopolist companies should understand that the people will not accept domination by them. The people want to exploit their own wealth for the benefit of their country and homeland...

Baghdad Press on Iraq's Oil Policy

(a) Baghdad home service in Arabic 06.00 GMT 27.12.67

Text of 'Al-Muwatin' article (as broadcast):

For some time the forces of world imperialism have been plotting against this country to dominate its people and resources. Every time our people tried to consolidate their energies to develop their homeland on firm and sound bases, these evil forces placed obstacles in their way and disrupted every project which could open new horizons before them. The forces of world imperialism not only used their political influence against us; they also resorted to sabotage. They instigated their agents to cause disturbances and to blow up the foundation of our national economy. For instance, when Iraq tried to break the blockade of the oil monopolies, imperialism instigated its agents to plot and to commit sabotage in a desperate attempt to divert us from this revolutionary course. We condemn imperialism, reaction, and their agents. We consider the continuation of the revolution's present policy, especially with regard to exploitation of our oil resources, a new step towards prosperity for forward-looking Iraq despite imperialism's desperate attempts, which are doomed to fail. Victory will be for the people and the revolution.

(b) Iraqi News Agency in Arabic 09.30 GMT 27.12.67

Excerpt from quotation of 'Al-Fallah' article:

Iraq's great revolutionary step in liberating its oil resources from monopoly and exploitation has received a favourable reaction among all circles. It has ushered in a new era which will enable the country to proceed towards full economic development and large-scale construction and industrialisation. In due course it will also enable Iraq to catch up with advanced nations and to turn its rich mineral wealth into hard currency. The recent agreement with the Soviet Union on developing the Rumaylah oilfield and marketing its oil, the previous agreement with the French petroleum group ERAP, and other agreements which will follow, are all considered important steps which liberated Iraq is now implementing to break the foreign oil monopoly on the one hand and to assert full sovereignty over its resources, thereby guaranteeing its national interests, on the other...



John *16/1. 1968* *copy to the Foreign Office (Baghdad)*
for Despatch (Fog)
(11) enter.
John.

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(1148/5/IRQ)

British Embassy,
Beirut.

30 December, 1967.



Dear Bill,

IRAQ - OIL

Please refer to my letter 1148/5/IRQ of 23rd December reporting on announcement from Baghdad of an oil agreement between the Iraq National Oil Company and a Soviet Oil Delegation.

2. This agreement, as you will now know, took the form of an exchange of letters, on 24th December, under which the U.S.S.R. agrees to provide I.N.O.C. with technical assistance in oil exploration, exploitation and marketing operations, in exchange for deliveries of Iraqi crude oil, on conditions to be determined by future negotiations. I enclose copies of reports in the Baghdad Press of the signing of the letters, and press conference which followed, and a subsequent statement by the Council of Ministers approving the exchange.

3. The agreement has been hailed by the Baghdad Press Radio and T.V. (all government controlled media) as an advance on the I.N.O.C./E.R.A.P. agreement a month ago and a "further step towards breaking the hold of foreign oil monopolies on Iraq's oil". Briefly, the views I have heard expressed by Iraqis here, including a senior official from the Ministry of Oil, Ghanim al Mutawalli, are that the agreement is a stop gap intended both to distract attention from the I.N.O.C./E.R.A.P. agreement, which has been under heavy fire, and, by implying that it might cover operations in Rumaila, put pressure on Western bidders for that area. Any deeper motives are generally discounted.

4. Commenting on the situation, to Jawad Challabi, two days ago, Abud Chayid (Naji Talib's brother-in-law) is reported to have said that I.P.C. wanted Rumaila, Artawi (?) and a small area in Kirkuk and were also interested in an area near Amara (which, for this reason, had been excluded from the E.R.A.P. agreement). These areas were being held open on terms to which, it was hoped, I.P.C., already the highest bidder, might come closer. The government have no intention of concluding an agreement with the U.S.S.R. for exploitation of oil in Rumaila as this is too explosive an issue for I.N.O.C. to accept terms which will bring less return than the I.P.C. offer. C.F.P. had not, as Reuter suggested in a report from Paris on 28th December, reached

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"a very advanced stage of negotiations" with I.N.O.C. Neither side were very happy about the way things were going. The E.N.I. team had left Baghdad for the time being - they were reluctant to give a bonus and were no longer in the running for Rumaila.

5. The government line that the E.R.A.P. offer was the best of the offers received, has, apparently, had an unsympathetic response. The story that the French paid £5 millions as a douceur (to Siddiq Shanshal who shared it with the President, the Prime Minister, the Ministers of Oil and Economics, al Jadir and Hasib) is widespread. So is the story of the Iraqis clearing the agreement with Nasr beforehand (I enclose a copy of a report in al Nahar, a Beirut daily, of 28th December, attributes the agreement to his intervention). The former Director General of I.N.O.C., Ghanim al Uqaili, circulated his evaluation of the agreement (said to be in more critical terms than that of his colleague, Tariq Ihsan Shafiq, which Geoffrey Hancock referred to in his letter of 12 December) which the Baghdad Press had refused to publish. In a television interview, on 10 December, about the government takeover of the Press, the Director General of the Iraqi Federation of Industries, Hashim al Dabbagh, criticised their action and cited the rejection of unfavourable comment about the E.R.A.P. agreement as an example of the way in which the Press denied the freedom of expression (he was subsequently dismissed from his post by Tahir Yahya).

6. Iraq now has two agreements-in-principle only which have brought no financial return to Iraq and are unlikely to do so for a long time to come (in the case of the I.N.O.C./U.S.S.R. agreement, Iraq will be involved in the expense of financing any operations which may take place). Contracts have now to be negotiated and ratified before any operations can take place. The E.R.A.P. agreement has been promised, by al Jadir on 24th December, in January and by a member of the I.N.O.C. Board, in a T.V. discussion, on 27th December, "within the next few days". The date for publication of any agreement with the Russians is even more indefinite - "the Soviet side will inform the Iraqi side after careful study" (of the material collected by the Soviet oil experts during the past month). In the normal way, all negotiations to implement projects in Iraq are unduly prolonged and those with E.R.A.P. are not likely to prove an exception - especially if I.N.O.C. is involved with both Rumaila and the mineral sulphur negotiations (due to begin on 6th January). With regard to the Soviet offer, the whole history of Iraq/Soviet relations since 1958 appears against the possibility of quick action beyond the dumping of equipment. As far as I am aware, no project completed or being implemented under the 1959 Iraq/Soviet agreement has been initiated since the Communist period of Qasim's regime. The Iraqi administration in general is Western orientated and anti-Russian and, therefore, whilst Adib and his colleagues may get away with

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the broad outlines of a policy, dotting the 'i's' and crossing the 't's' of a contract is likely to prove a slower and more arduous process than usual.

7. By these agreements, I.N.O.C. have deliberately complicated the oil situation in the hopes of intimidating I.P.C. and other bidders. I think that they may well be hoping that a satisfactory agreement-in-principle over Rumaila is possible before they are faced with having to finalise either E.R.A.P. or the Soviet offers. This will enable them to concentrate on negotiating the Rumaila agreement, perhaps using it to hold out for improved terms from E.R.A.P. (which would then be fit for public presentation) and to minimise, if not disregard, the possible assistance from the U.S.S.R.

Yours ever.

H. St. J. B. Armitage

(H. St.J. B. Armitage)

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IS NASSER BEHIND IRAQ-ERAP OIL AGREEMENT?

In a private despatch from Baghdad, the daily AL NAHAR today reported that the recent agreement for cooperation in the oil industry between the Iraq National Oil Company (INOC) and the French oil concern ERAP would not have been concluded had it not been for UAR President Nasser's mediation with his Iraqi friends. The report claimed that among Nasser's friends in Iraq are Siddik Shanshal, a former Minister, and Khaireddin Hassib, who was Central Bank Governor in Iraq and is now a member of INOC's Board of Directors. The paper said that Shanshal's brother had been sent to Paris to negotiate the agreement with ERAP while Hassib had gone to Cairo for talks with Nasser who was allegedly requested to intervene with Aref. Hassib was reported to have returned to Baghdad with a personal message from Nasser to Aref. Nasser's aim was, according to the paper, to reward President de Gaulle for his stand in support of the Arabs in their conflict with Israel.

The Baghdad Observer - Monday, December 25, 1967

**OFFICIAL STATEMENT ON IRAQI-SOVIET
OIL COOPERATION**

The Council of Ministers has issued the following statement on economic and technical cooperation between Iraq and the Soviet Union in the fields of oil exploitation.

"The Council of Ministers has been acquainted with the proposition of the Minister of Oil, and explanations of the Chairman of the Iraq National Oil Company on the approval of INOC Board of Administration on letters exchanged between the Company and the Head of the Soviet Delegation on economic and technical cooperation between the two parties in the fields of prospecting, excavation for the extraction and direct exploitation and marketing of oil".

"The Council of Ministers has considered the contents of the said letters in harmony with the general oil policy of the State, in compliance with Article 16 of Law No. 123 of 1967. Thus, the Council has approved the exchange of such letters which have been duly signed by the two parties on 24.12.1967."

Al Thawra

The Baghdad Observer

Monday, December 25, 1967

IRAQ-U.S.S.R. OIL ACCORD

Economic and Technical Cooperation in Petroleum Industry

Letters exchanged between the Iraqi National Oil Company and the Soviet delegation currently visiting Iraq were signed at the Council of Ministers Headquarters yesterday at noon time, under which the Soviet Union would exchange technicians, equipments and machinery for shipments of extracted crude oil.

Sayed Adib al-Jadir, Chairman of INOC Board of Administration, signed on behalf of Iraq and Mr. Siminev Skatishkov, Chairman of Foreign Economic Relations Commission at the U.S.S.R. Council of Ministers and head of the Soviet delegation signed on behalf of the Soviet Union.

In a statement on the occasion, Sa. al-Jadir expressed satisfaction at the signing of the letters and pointed out that he had signed a Protocol in 1965 on economic cooperation between Iraq and the Soviet Union which helped promote economic relations between the two countries. He hoped these letters would serve as a beginning for further cooperation. [(1) Members of the board of directors of the Iraqi Petroleum Company, and members of the Soviet delegation, as well as the Soviet Ambassador, were present at the ceremony arranged for the signature of the letters].

"The significance of this step under the current circumstances, especially after the magnanimous political support extended by the Soviet Union to the Arab countries during the imperialist-Zionist aggression last June becomes self evident in view of the fact that it is related to a vital field of cooperation between our two countries which we consider a corner-stone for our national economy. [(2) This agreement also helps us to achieve what we have always aimed at for a direct exploitation of oil. I have no doubt that the detailed agreements which will be concluded following the exchange of these letters will form a strong basis for cooperation between our two countries, and assist us in reaching our aims for the industrialisation of this country and the setting-up of an independent oil industry, which would weaken foreign oil trusts and benefit both our countries and people. In my name and that of my colleagues the members of the board of the Iraqi National Petroleum Company, I extend my thanks to you and to your colleagues the members of the Soviet delegation for the cooperation you have shown. It is my hope that we will soon be able to complete the present agreements."].

In reply to al-Jadir's statement, Mr. Skatishkov confirmed that the friendly ties between Iraq and the Soviet Union would be furthered and strengthened by effective agreements in various fields of cooperation.

"The...

"The Soviet Union has responded to the desire of the Government of Iraq to extend technical assistance for the establishing and development of oil industries in the country. The Soviet Government in fact, devotes considerable attention to cooperation with Iraq in the field of oil for the benefit of our two peoples.

After the exchange of letters between the two parties, **Sd. Adib al-Jadir** held a press conference at the Diwan of the Council of Ministers.

The following letter was read out at the conference:

"The government of the USSR has agreed to extend assistance to the Government of Iraq to undertake direct operations for the development of oil industry in the country. Such assistance may be extended by Soviet enterprises in the field of drilling oil wells together with equipment required for such operations in the southern areas of Iraq and for facilitating the transportation and marketing of extracted oil. The assistance will also involve geological and exploration surveys in search for oil in the northern areas of Iraq, in addition to determining sites for oil excavation in areas of proven reserve in the south and areas in which exploration and geological survey operations will be made in the north. The defining of the scope, terms and conditions of the assistance in the aforementioned fields will be decided upon in subsequent negotiations between the competent parties.

It is understood that the expenses to be borne by Soviet enterprises in connection with the supply of equipments, the extension of technical assistance for geological prospecting, excavation of wells and provision of all other requirements, as well as expenses emanating from other operations related to assistance for the direct development of Iraqi national oil industry, will be compensated by the Iraqi party in kind of shipments of oil extracted by the Iraq National Oil Company to the Soviet Union, provided that terms and conditions of such shipments be defined simultaneously with terms and conditions according to which the above mentioned assistance will be extended.

Negotiations between representatives of the two parties may be held either in Baghdad or in Moscow.

The Soviet party will take the initiative of informing the Iraqi party of the date for such negotiations after careful consideration of the results of the works of Soviet experts who have for the last four weeks been studying information submitted by the Iraqi party and making various tours of oil fields and installations in Iraq."

[(3) The two parties confirmed that the letter of the head of the Soviet delegation and the reply of the head of the Iraqi delegation are considered an initial agreement between the two parties in this connection].

Thereafter, **Sd. al-Jadir**, read out the following statement to press reporters: "You have been aware of the contents of letters exchanged between INOC and the Chairman of the Foreign Economic Relations Commission at the USSR Council of Ministers."

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"Now let me point out that the oil problem in Iraq began with the imposition of the first oil concession concluded under the Mandatory Regime in 1925. With the elapse of years and succession of occupation eras and biased agreements, the problem was aggravated.

"It was natural, however, that the 14th July Revolution of 1958 would endeavour to achieve the economic independence of Iraq besides the political independence achieved ever since the eruption of the revolution. In the forefront of the factors leading to the economic independence was the liberation of Iraq's economy from the restrictions imposed by the monopoly of oil exploitation by a single company which resolved to embark on a unilateral limitation of production, and prevented Iraq from embarking on oil production directly or in cooperation with any party.

Thus, Law No. 80 of 1961 was promulgated to confirm Iraq's rights to exercise sovereignty and utilize the areas outside the scope of exploitation of oil companies operating in Iraq.

In realization of the objectives of Law No. 80 and in conformation of Iraq's oil policy, Law No. 97 and Law No. 123 of 1967 gave birth to the Iraq National Oil Company which started operations on the 3rd of October, 1967. Meanwhile, the Ministry of Oil had initiated contacts with various foreign institutions thus confirming Iraq's determination to implement Law No. 97 in a manner that would render INOC capable of exercising its obligations and realizing its objectives.

INOC set out relentlessly and rationally to carry out its obligation. It was evident that certain parties thought it would be necessary that each of them be given enough time to consider cooperation with INOC. Foreign quarters were of different degrees of acquaintance with Iraq's oil conditions and potentialities, and its requirements to carry out its national objectives represented in its attitude towards oil affairs.

The French company ERAP was deepest among foreign companies in its comprehension of Iraq's oil conditions and was highly prepared to cooperate with INOC on the principles INOC had approved in response to the oil policy of the government. Therefore, agreement was reached with ERAP on the terms declared to the public, and the contract would be complimented by the promulgation of a special law.

As concerns the friendly Soviet Union, the Ministry of Oil had in September contacted the competent authorities to take the initiative to embark on cooperation with Iraq in direct exploitation and marketing of oil. After the arrival of the Soviet delegation, INOC put at its disposal all facilities required for the realization of such cooperation which has reached an initial stage with the exchange of the above mentioned letters. Meanwhile, the two parties look forward to further steps on the road of cooperation in the fields of oil industry and marketing.

Thus we have started what we were long looking forward to i.e. the establishment of an independent national oil industry by means of contractual relations and direct exploitation. INOC will in the near future start oil extraction and marketing.

Iraq's capabilities of utilizing its natural resources are quite considerable; I would not be exaggerating if I said they were highly expensive and would secure prosperity, happiness, freedom and dignity for all citizens from the farthest north to the farthest south. Every step to be made towards utilizing Iraq's resources and potentialities would return with benefit to other nations dealing with Iraq on principles of mutual interests, free from political domination or economic monopoly.

We are at the threshold of a phase in which the public sector's contribution is expanding to lead progress and undertake basic responsibility of implementing development plans. No doubt ample scope is open for the private sector to be reactivated within this expansion, to properly contribute to the general development of the country, without exploitation.

We cannot, and should not, engage in fruitless endeavours; the recession phase we have been confronted with will soon be eliminated under the impact of ever expanding activity.

Our emancipation in action and production will undoubtedly bring to the surface the great potential energies not only in our natural resources which we have so far been deprived of, but in our human capabilities represented in the diligent workers, keen engineers and sincere economists who are anxious to launch creative activities in all economic fields. Thus, better social conditions will be secured through our collective action. I wish that INOC will succeed in its active role in all these fields."

In reply to a question as to whether the agreement covered Rumaila oil field, Ed. al-Jadir said "Areas of the agreement were not defined in these letters. They would be defined in new agreements." He stated that the agreement differed from that concluded with ERAP, in that the latter was a mere contract while the former has implied direct exploitation by Iraq with the assistance of the Soviet Union.

Asked whether the two agreements covered all Iraqi territories, he said they covered only a small part of Iraq and there were considerable scope for other companies and countries in this connection.

In reply to a question on whether there was an intention towards cooperation between INOC and similar Arab companies especially in U.A.R., he said that a conference of national oil companies was held in Djakarta and that contacts were on the way on the possibility of joint venture. "Iraq welcomes cooperation with Arab states especially UAR which we consider a basis for realizing higher Arab interests," he added.

Asked whether the subject of delegating Iraqi citizens to Moscow for training in oil enterprises was discussed, he said there would be other agreements to involve such possibilities.

In reply to a question concerning the probability that oil companies operating in Iraq would hinder the exploitation of oil, he said "I don't think there are possibilities for such hinderance. Iraq has concluded agreements with countries which need oil for local consumption, and many offers have been received from many countries. However, Iraq will go ahead with its oil policy in accordance with its interests regardless of all other considerations".

Sd. al-Jadir, also pointed out that INOC was considering offers submitted by other countries for the exploitation of Iraqi oil.

In reply to another question, he said, the company would appoint a number of engineers soon after starting operations. He denied the existence of any secret agreement with ERAP, the Soviet Union or any other party, and added that all agreements had been published and that all agreements to be concluded in the future would be made public. "The people have been bored of declarations and pledges; our policy is based on action", he concluded.

Note:

(a) Square bracket (1) and (2) are translations of passages from the text in Al-Thawra of 25 December which were omitted from the Baghdad Observer.

(b) Square bracket (3). This passage was not included in the Al-Thawra text.

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IRAQ-USSR OIL ACC

ECONOMIC AND TECHNICAL COOPERATION IN PETROLEUM INDUSTRY

LETTERS EXCHANGED BETWEEN THE IRAQI NATIONAL OIL COMPANY AND THE SOVIET DELEGATION CURRENTLY VISITING IRAQ WERE SIGNED AT THE COUNCIL OF MINISTERS HEADQUARTERS YESTERDAY AT NOON TIME, UNDER WHICH THE SOVIET UNION WOULD EXCHANGE TECHNICIANS, EQUIPMENTS AND MACHINERY FOR SHIPMENTS OF EXTRACTED CRUDE OIL.

SD. ADEEB AL-JADIR, CHAIRMAN OF INOC BOARD OF ADMINISTRATION, SIGNED ON BEHALF OF IRAQ AND MR. SIMINOV SKATISHKOV, CHAIRMAN OF FOREIGN ECONOMIC RELATIONS COMMISSION AT THE USSR COUNCIL OF MINISTERS AND HEAD OF THE SOVIET DELEGATION SIGNED ON BEHALF OF SOVIET UNION.

In a statement on the occasion, Sd. al-Jadir expressed satisfaction at the signing of the letters and pointed out that he had signed a Protocol in 1965 on economic cooperation between Iraq and the Soviet Union which helped promote economic relations between the two countries. He hoped these letters would serve as a beginning for further cooperation.

"The significance of this step under the current circumstances, especially after the magnanimous political support extended by the Soviet Union to

the Arab countries during the imperialist-Zionist aggression last June becomes highly consolidated in view of the fact that it is related to a vital field of cooperation between our two countries which we consider a corner-stone for our national economy," Sd. al-Jadir stated.

In reply to al-Jadir's statement, Mr. Skatishkov confirmed that the friendly ties between Iraq and the Soviet Union would be furthered and strengthened by effective

agreements in various fields of cooperation.

"The Soviet Union has responded to the desire of the Government of Iraq to extend technical assistance for the establishing and development of oil industries in the country. The Soviet Government in fact, devotes considerable attention to cooperation with Iraq in the field of oil for the benefit of our two peoples," Mr. Skatishkov said.

After the exchange of letters between the two parties, Sd. Adeeb al-Jadir held a press conference at the Diwan of the Council of Ministers.

The following letter was read out at the conference: "The government of the USSR has, agreed to extend assistance to the Government of Iraq to undertake direct operations for the development of oil industry in the country. Such assistance may be extended by Soviet enterprises in the field

of excavation of oil wells together with equipment required for such operations in the southern areas of Iraq and for the facilitation of transportation and marketing of extracted oil. The assistance will also involve geological and prospecting surveys in search for oil in the northern areas of Iraq, with a view to pinpoint sites for oil excavation in areas of proven reserve in the south and spots in which prospecting and geological survey operations will be made in the north. The defining of the scope, terms and conditions of the assistance in the aforementioned fields will be decided upon in subsequent negotiations between the competent parties.

(Continued on page 4)

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CORD

IRAQ-USSR OIL ACCORD

DIRECT EXPLOITATION BY IRAQ WITH SOVIET ASSISTANCE

(Continued from page 4)
and potentialities, and its requirements to carry out its national objectives represented in its attitude towards oil affairs.

The French company ERAP was deepest among foreign companies in its comprehension of Iraq's oil conditions and was highly prepared to cooperate with INOC on the principles INOC had approved in response to the oil policy of the government. Therefore, agreement was reached with ERAP on the terms declared to the public, and the contract would be complimented by the promulgation of a special law.

As concerns the friendly Soviet Union, the Ministry of Oil had in September contacted the competent authorities to take the initiative to embark on cooperation with Iraq in direct exploitation and marketing of oil. After the arrival of the Soviet delegation, INOC put at its disposal all facilities required for the realization of such cooperation which has reached an initial stage with the exchange of the above mentioned letters. Meanwhile, the two parties look forward to further steps on the road of cooperation in the fields of oil industry and marketing.

Thus we have started what we were long looking forward to i.e. the establishment of an independent national oil industry by means of contractual relations and direct exploitation. INOC will in the near future start oil extraction and marketing.

Iraq's capabilities of utilizing its natural resources are quite considerable; I would not be exaggerating if I said they were highly expensive and would secure prosperity, happiness, freedom and dignity for all citizens from the farthest north to the farthest south. Every step to be made towards utilizing Iraq's resources and potentialities would return with benefit to other nations dealing with Iraq on principles of mutual interests, free from political domination or economic monopoly.

We are at the threshold of a phase in which the public sector's contribution is expanding to lead progress and undertake basic responsibility of implementing development plans. No doubt ample scope is open for the private sector to be reactivated within this expansion, to properly contribute to the general development of the country, without exploitation.

We cannot, and should not, engage in fruitless endeavours; the recession phase we have been confronted with will soon be eliminated under the impact of ever expanding activity.

Our emancipation in action and production will undoubtedly bring to the surface the great potential energies not only in our natural resources which we have so far been deprived of, but in our human capabilities represented in the diligent workers, keen engineers and sincere economists who are anxious to launch creative activities in all economic fields. Thus, better social conditions will be secured through our collective action. I wish that INOC will succeed in its active role in all these fields."

In reply to a question as to whether the agreement covered Rumaila oil field, Sd. al-Jadir said "Areas of the agreement were not defined in these letters. They would be defined in new agreements." He stated that the agreement differed from that concluded with ERAP, in that the latter was a mere contract while the former has implied direct exploitation by Iraq with the assistance of the Soviet Union.

Asked whether the two agreements covered all Iraqi territories, he said they covered only a small part of Iraq and there were considerable scope for other companies and countries in this connection.

In reply to a question on whether there was an

intention towards cooperation between INOC and similar Arab companies especially in UAR, he said that a conference of national oil companies was held in Djakarta and that contacts were on the way on the possibility of joint venture. "Iraq welcomes cooperation with Arab states especially UAR which we consider a basis for realizing higher Arab interests," he added.

Asked whether the subject of delegating Iraqi citizens to Moscow for training in oil enterprises was discussed, he said there would be other agreements to involve such possibilities.

In reply to a question concerning the probability that oil companies operating in Iraq would hinder the exploitation of oil, he said "I don't think there are possibilities for such hindering. Iraq has concluded agreements with countries which need oil for local consumption, and many offers have been received from many countries. However, Iraq will go ahead with its oil policy in accordance with its interests regardless of all other considerations."

Sd. al-Jadir, also pointed out that INOC was considering offers submitted by other countries for the exploitation of Iraqi oil.

In reply to another question, he said, the company would appoint a number of engineers soon after starting operations. He denied the existence of any secret agreement with ERAP, the Soviet Union or any other party, and added that all agreements had been published and that all agreements to be concluded in the future would be made public. "The people have been bored of declarations and pledges; our policy is based on action," he concluded.

OFFICIAL STATEMENT ON IRAQI-SOVIET OIL COOPERATION

The Council of Ministers has issued the following statement on economic and technical cooperation between Iraq and the Soviet Union in the fields of oil exploitation.

Article 16 of Law No. 123 of 1967. Thus, the Council has approved the exchange of such letters which have been duly signed by the two parties on 24/12/1967.

"The Council of Ministers has been acquainted with the proposition of the Minister of Oil, and explanations of the Chairman of the Iraq National Oil Company on the approval of INOC Board of Administration on letters exchanged between the Company and the Head of the Soviet Delegation on economic and technical cooperation between the two parties in the fields of prospecting, excavation for the extraction and direct exploitation and marketing of oil".

"The Council of Ministers has considered the contents of the said letters in harmony with the general oil policy of the State, in compliance with

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but Sept ✓*

THE BAGHDAD OBSERVER

Monday, December 25, 1967.

DEVELOPING THE OIL INDUSTRY

The past number of months may rightly be judged as marketing the outbreak of a petroleum revolution in Iraq. First to come was Law No. 97 which brought into play Law No. 80, of 1961. Next came Law No. 123 of 1967 by which the reorganised National Oil Company was founded and set on sure ground for exercising its duties in an efficacious and conclusive manner. The National Oil Company's first-fruit was the successful deal it concluded with the consortium of French oil companies, ERAP. Now this is followed with a preliminary agreement with the Soviet government under which the latter undertakes to provide technical aid for developing oil industries in Iraq.

Ever since the IPC got its first foothold in this country back in 1925, it has been systematically working, side by side with its associate companies, to build walls and barriers around Iraq's petroleum with the object of preventing the outside world from gaining so much as a glimpse of what is going here. The districts where the IPC and its associate companies were prospecting for oil or things other than oil, were hermetically sealed off and the companies' operations were considered as top secrets on what none may encroach.

The ultimate purpose was of course evident. It was to keep Iraq completely out of touch with whatever developments that might occur in the international oil industry and to keep Iraqi oil under the thumb of the international oil cartels which could then have a free hand in behaving as they pleased fearing no control and no acts of reckoning. By keeping Iraq out of contact with the general picture of the world oil industry, the companies hoped to keep her perpetually in the dark as to the benefits that can accrue from her own oil.

But the shackles came to be broken off one after another by the increasing opening Iraq has been developing to the outside world. By her membership and active participation in the functions of OPEC, by her attendance at international oil conferences, by founding her own National Oil Company and giving this company every boost for discharging its duties, Iraq has been enhancing this opening to the outside world and serving notice of her determination to regain her rights and enable her people, in conjunction with friends the world over, to tap and develop her own natural resources.

While giving our blessings to these resourceful steps which are bound to attain to Iraq her economic independence, we avail ourselves of this opportunity to laud the growing and fruitful cooperation between the Soviet Union and the Iraq Republic.

*Copy Hussein Dept
Oil Dept*

Director 22/1.

P. enter a copy of this letter (with a copy of the first enclosure) on the "Iraq: Erap" file.

Mr Amittage's reporting continues to be of a high standard on Iraq oil matters. The comment on the Soviet technical assistance project is particularly interesting (para. 6).

✓ John Wear 17/1

Mr Feenley

~~Easter Depv~~ (Mr Montgomery) If MR Amittage's hunch (para. 7) is right, it might explain the accelerated efforts of the Iraqis in the past few weeks towards resumption of relations.

~~Northern Depv~~ 22/1.

~~Western Depv~~.

25/1 Things can be long drawn out in Iraq, but now and again they move suddenly (witness Law 97). One cannot, therefore, afford to be too complacent.

J. Feenley
18/1

P.A.
29/1

USSR-IRAQ: COOPERATION EXPANDS

BY A. ALIKHANOVA

"The realisation of the Soviet-Iraqi agreement on Soviet assistance in the development of the Iraqi National Oil industry will bring about further expansion of our cooperation". Such was the conclusion made by the President Abdul Rahman Arif of Iraq after the Soviet-Iraqi talks held in Iraq when the above agreement was signed.

Undoubtedly, the strengthening of friendship between the Iraq and the Soviet Union is reflected in this agreement which

stipulates cooperation in such vital industry as that of national oil. This agreement is economically beneficial for both countries. Judge for yourself.

From now on the Soviet organisations will ship to Iraq the necessary equipment and assist in prospecting for oil. They will put into operation the oil wells in Southern Iraq

and render their aid in transporting and selling oil. It will be for the first time in the history of Soviet-Iraqi relations that Soviet geologists will begin prospecting for new oil deposits in Iraq. As stipulated by the agreement, the Iraqi National Oil Company will compensate for the Soviet side's expenditures by shipping oil to the Soviet Union.

It should be borne in mind that the Soviet Union is a great power with a highly developed oil industry, and it effectively assists the developing countries in building up their national oil industry. The reason for that is that to render assistance to the countries struggling for their national independence is a principle of the Soviet Union's policy in the sphere of foreign economic relations. And this assistance enjoys good reputation. Here are some facts. The Soviet Union participates in the construction of plants of primary processing of oil in Alexandria and Suez. The construction of an oil refinery in Alexandria has been completed. In

The Baghdad Observer
8.1.1968

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Oil Dept ✓

the Algerian institute of oil and gas. Soviet instructors train skilled oil experts to foster the country's national industry.

Many students from Arab countries are trained in Soviet institutes of oil.

Soviet geologists have achieved good results. They have discovered oil in India, Syria and Brazil despite the assertions of western experts who alleged that there was no oil in those countries.

Working jointly with their Iraqi colleagues, Soviet experts have discovered the world's richest deposits of phosphorite and sulphur near the city of Rutba not far from Mosul. Also found were the deposits of Iron ore, Quartz sand, Gypsum, Dolomites and Ceramic clay.

The conditions which brought about the new agreement are of great significance for the development of oil industry in Iraq. Characteristic of this agreement is deep respect for the sovereignty of that country, the understanding of its needs and a sincere wish to render effective assistance. This agreement has no political or other strings attached, which could infringe upon Iraq's sovereignty.

At the same time, the Iraq Petroleum Company, which for 50 years have been exploiting the oil riches of Iraq, takes the lion's share of all profits.

Eastern Dept (Mr Montgomery)
Presumably Alikhanova is a Russian lady journalist. Her article is, of course, preposterous, but it is useful to know what the opposition is thinking.

JW 1/2

The oil tycoons gave Iraq a minute portion of their profits in the form of royalties. True, the growing national-liberation movement in the country forced the Iraq Petroleum Company to agree on paying half of its profit. But it is clear to everyone that the fifty-fifty principle is nothing but a concealed method of colonialist plundering. Even the London Observer described it as a new symbol of western imperialism. The companies refine and sell oil independently and the major part of profit remains in the Iraq petroleum company.

As a result of that only a third of the whole sum received from all oil operations goes to Iraq.

Various privileges enjoyed by Iraq Petroleum Company in Iraq was also a significant source of additional profit. It paid no taxes to the Iraqi Government. Besides, the oil

they shipped away and the materials and equipment they brought in were duty free. Striving for high profits the oil monopolies checked progress of the national oil-refining industry in Iraq. It happened so that Iraq, the possessor of huge oil resources, had to import oil products thereby returning to the companies their meagre rental pay for the concessions.

This is why the new agreement between Iraq and the Soviet Union, based on essentially different conditions, is so important for the Iraq national oil industry and, in the final analysis, for the whole nation.

This is why we have every reason to believe that the Soviet-Iraqi relations based on friendship, tested by time, sincere and with no strings attached have a great future. And the new agreement brings another evidence of that.

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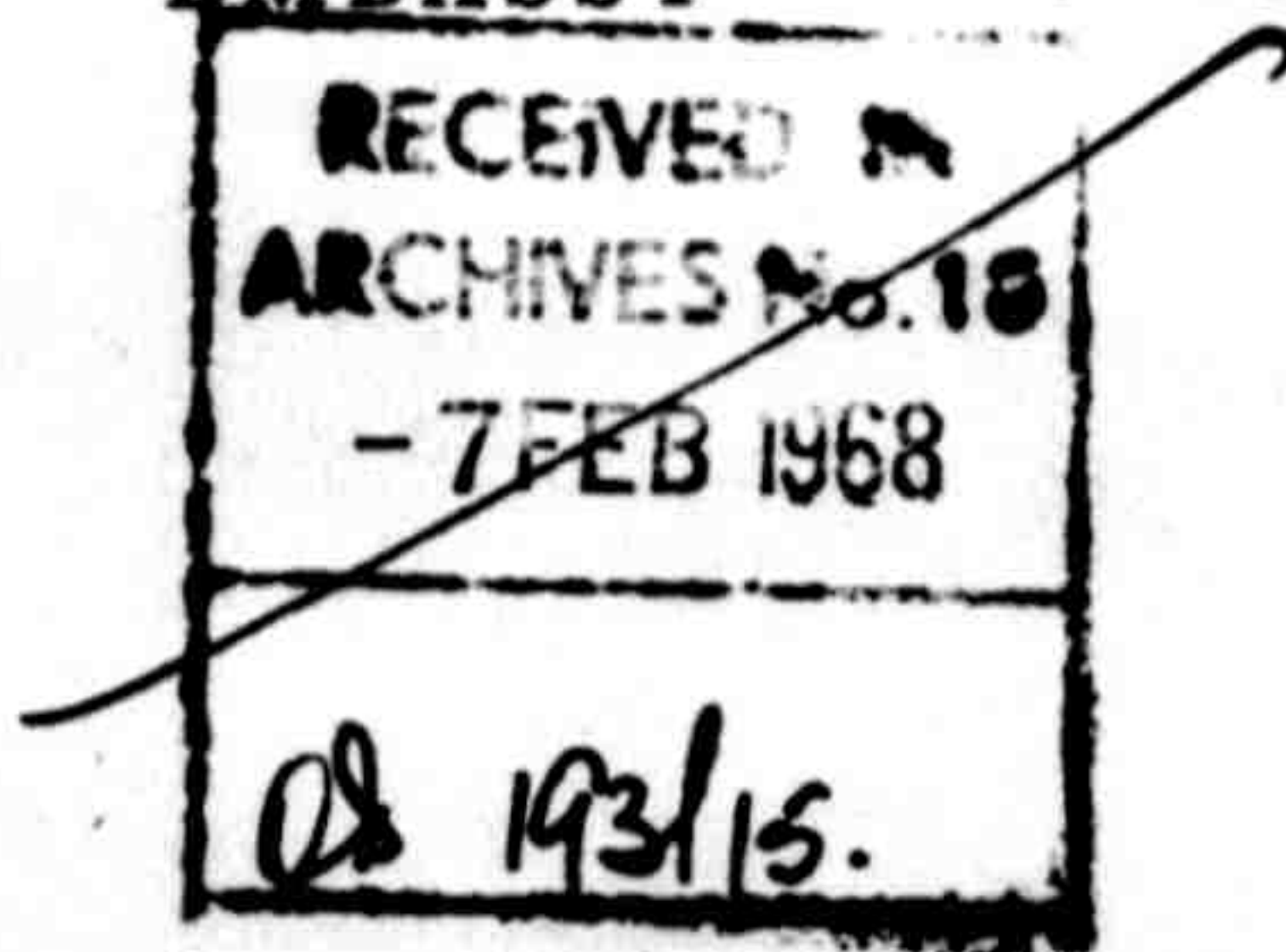
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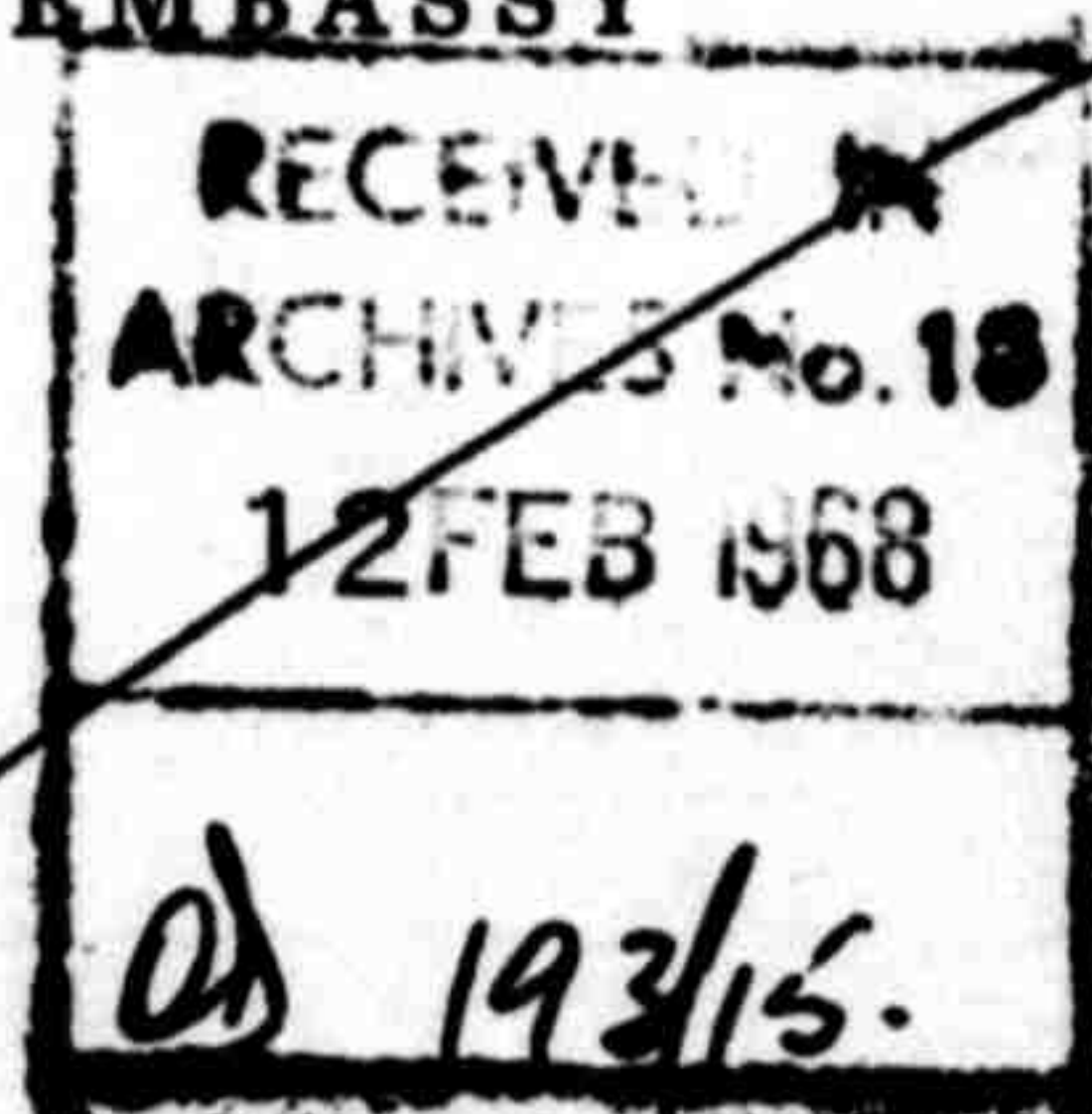


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Letter

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8 Feb 68

Russian Interest In Iraqi Oil; Iraqi-Soviet Oil Agreement. Possible Russian Interest In Iraq Oil. 8 Feb. 1968. MS Middle East Online: Iraq, 1914-1974: Selected files from series AIR, CAB, CO, FCO, FO, PREM, T, WO, The National Archives, Kew, UK FCO 54/35. Newspaper Cutting. The National Archives (Kew, United Kingdom). Archives Unbound, link.gale.com/apps/doc/SC5107456447/GDSC?u=webdemo&sid=bookmark-GDSC&xid=4fe5ddf4&pg=1. Accessed 11 Apr. 2022.